

Commonwealth of Massachusetts
Department of Telecommunications and Energy
Fitchburg Gas and Electric Light Company
Docket Nos. D.T.E. 02-24 and D.T.E. 02-25
Responses to the Department's First Set of Information Requests

Request No. DTE 1-4:

Refer to Exh. FGE - Schedule JHA-1 (Gas) at 40 of 56. Please provide a complete explanation of the "engineering judgement" used to propose the negative salvage values for Account 367.00 and Account 380.00.

Response:

- (1) In regards to the negative salvage of (120)% in Account 367.00, the Company has been experiencing higher cost of removal and currently has exceeded the prior estimates of (80)%. The Company's history shows in the 1981 to 2000 period (376.0)% net salvage and 1991 to 2000, (399.5)% net salvage. The phrase "engineering judgment" is not specifically stated in the report; however, engineering judgment was employed in connection with every depreciation rate parameter, i.e., the average service life estimate, the net salvage estimate and the dispersion (Iowa curve) selected.

Relative to the net salvage estimate for Accounts 367.00 (and 380.00), our engineering judgment led us to question whether net salvage of (376)% was predictive of the future for Account 367.00. One consideration was that the historical retirement dollars are based upon FIFO aging, which tends to overstate net salvage percentages (and understate average lives).

- (2) Industry-wide, Account 380.00, Services is noted for the net cost to retire to be a very high percent of the original cost retired and the FGE historical percentage net salvage values are high. In the 1981 to 2000 period the experience shows (510.1)% and in 1991 to 2000 shows (533.9)%. These high percentages are due in part to FIFO pricing of the retirements. We chose to adjust the net salvage to (150)% based on engineering experience and judgment.

Person Responsible: James H. Aikman